

**Draft Minutes
Timber Advisory Committee
November 7, 2013 Meeting**

The meeting was called to order by David J. Gau, Chairman, at 1:43 PM in Room 1009, State Board of Equalization (BOE), 160 Promenade Circle, Sacramento, California. Chairman David Gau called the roll, and a quorum was present.

**TIMBER ADVISORY
COMMITTEE (TAC) MEMBER**

David J. Gau, Chairman
Charles Leonhardt
Mari Wilson
Mike Mallory
Lennart Lindstrand, Jr.

REPRESENTING

BOE
Assessor, Plumas County
Assessor, Humboldt County
Assessor, Siskiyou County
Small-Scale Timber Owners

OTHERS IN ATTENDANCE

Ken Thompson
David Yeung
Peter Murphy
George Felix
Mike Doyich
Art Tenneson
Ladeena Ford
Mark Bosetti

REPRESENTING

BOE, SAPD, Timber Tax Section
BOE, SAPD, Timber Tax Section
BOE, SAPD, Timber Tax Section
BOE, SAPD, Timber Tax Section
BOE, SAPD, Timber Tax Section
BOE, SAPD, Timber Tax Section
BOE, Legal Department
Sierra Pacific Industries

COMMITTEE MEMBERS NOT IN ATTENDANCE

Leslie Morgan
Susan Ranochak
Marty Olhiser
George Gentry

Assessor, Shasta County
Assessor, Mendocino County
Large-Scale Timber Owners
Board of Forestry Representative

1. Approval of the April 25, 2013 Meeting Minutes

David Gau asked if everyone had reviewed the minutes from the previous meeting. With no errors or omissions heard, Chuck Leonhardt motioned to approve the minutes from the April 25th meeting as submitted. Len Lindstrand seconded the motion, which passed with all in favor. (Note: Members Leslie Morgan and Mike Mallory who were unable to take the Oath of Office at the spring meeting were sworn in by BOE Executive Director Cynthia Bridges on October 22, 2013 in Redding CA).

2. Harvest Value Discussion for Period of January 1, 2014 – June 30, 2014

Timber Tax Senior Forest Property Appraiser Peter Murphy began the discussion on the 1H14 suggested timber harvest values with some introductory comments. Timber Tax reported value and volume has been relatively stable for the last two years. He referred the committee to a graph that shows very little change in 2012 compared to 2011. But compared to the down years of 2009 and 2010, reporting is up significantly. The volume reported for the first half of 2013 is up 30% compared to the first half of 2012 however, the reported value is only up 5%. This is most likely due to the large volume of low value 2012 fire salvage timber that is now being reported in the northern part of the state.

The number of reported sales analyzed and used in the appraisals for the first half of 2014 is up 24% compared to the second half of 2013. This is primarily due to more sale activity on the coast. The export market has also been quite active this year, which is up about 22% compared to last year, and this has helped to increase the number of sales as well. Export sales peaked in late April or early May and then slowed by late June. In the past, the Chinese export market was only buying true fir and Douglas-fir, but this year they started buying pine as well.

The export market affects the coastal regions in the state within a 4-5 hour per round trip haul of Eureka or the Port of Oakland. In the Sierra, the export market reaches out from about Oroville in the north to Sonora in the south, with hauls in the 7 to 11 hour range. There are also four transfer/re-load yards that help to lower the burden of the long hauls and truck shortages. There are transfer stations in Willits, Ukiah, Marysville, and McClellan, where the logs are scaled, de-barked and loaded into shipping containers up to highway legal weight. Once at the port, the containers are loaded to full capacity before they are loaded on to the ship.

a) Tables G & S, Green and Salvage Timber Harvest Values

Peter gave a range of Immediate Harvest Values (IHV) derived from sales information and the corresponding suggested harvest values for several of the more significant Timber Value Areas (TVA) in the State. He also noted that due to building code changes, wider dimension framing lumber is required and that is driving increased demand and higher prices in the Size Class 1 and 2 Douglas-fir. Len Lindstrand wanted to know the range of IHVs for DFG3 and PPG3 in TVA 6. Peter said that Doug-fir is a minor species in that TVA and for DFG3 there were 6 sales for 3.5 MMBF and the IHVs ranged \$225-\$307/MBF. The PPG3 in TVA 6 ranged \$36-\$426/MBF. Mark Bosetti wanted to know how much volume was represented by the SC 3 pine sales in TVA 6. Peter responded that the sales were represented by 46 MMBF. As the discussion on green timber values came to an end, Chairman David Gau suggested salvage values be discussed next and the committee would vote on green and salvage table values together in one motion.

Peter Murphy began the discussion on Table S by saying TVAs 5 and 7 were heavily burned in 2012 and that they have had a *Modified Value Schedule* in place for the past year. A Modified Schedule provides tax relief to victims of large catastrophic events (such as wildfires) because values are based on “event specific” sales only. These sales generally reflect an oversupply of low

value salvage timber. A modified schedule is being recommended for TVAs 5 & 7 for 4Q13 and this will be discussed in more detail under agenda item 3a. Regular salvage values proposed in TVA 8 for the first half of 2014 are based on a limited number of Rim Fire sales, other fire salvage, blowdown, and other salvage sale information. The values are significantly lower than 75% of green. Salvage values in all other TVAs are primarily 75% of the green value, due to the lack of sales information. With no objections to the regular salvage values in Table S, Mike Mallory motioned to approve both Tables G and S as proposed. The motion received a second from Len Lindstrand, and without objection the motion was carried.

b) Table 1, Miscellaneous Forest Products Harvest Values

Miscellaneous forest products only comprise 5 ½ % of the total revenue generated by the timber yield tax, and the Small Sawlogs Miscellaneous (SSM) category produces the majority of the tax dollars reported under Table 1. There are not many changes in Table 1 proposed for first half of 2014. Hardwood fuelwood (FWH) is up \$5.00, pole values are unchanged, SSM is down \$15.00 and Miscellaneous Conifers (CM) is up \$10.00. Miscellaneous products contained in Table 1 are not indexed, so stronger consideration is given to current year sales. The CM value is up a little due to high value lodgepole pine sales that are used in custom log homes. A motion to approve Table 1 values as proposed was made by Chuck Leonhardt and was seconded by Mari Wilson. Without objection, the motion carried.

3. Other Business

a) Modified Fire Schedule TVA 5 and TVA 7

Due to several Forest Service fire salvage sales that have occurred since the last TAC meeting, staff is recommending a modified value schedule for fourth quarter 2013 in TVAs 5 & 7, but not for first quarter of 2014. This is because the majority of the 2012 fire salvage in those TVAs should be cut out by the end of 2013. Any remaining fire salvage and all other salvage will be reported under the normal salvage table values currently being proposed. Normally, in the absence of a significant number of salvage sales, salvage is based on 75% of the green timber value. In this case however, the regular salvage values proposed for the first half of 2014 for TVAs 5 & 7 are so heavily influenced by low value fire salvage sales and the salvage values are significantly lower than 75% of green value. It is therefore staff's recommendation that a modified schedule is not necessary after the fourth quarter 2013.

After a significant amount of discussion on the 2012 fire salvage in TVAs 5 & 7 between Len Lindstrand, Peter Murphy and Mark Bosetti of Sierra Pacific Industries, Mr. Lindstrand felt the modified schedule should be continued for both first and second quarters of 2014. Mr. Bosetti indicated that combined volume estimates on the remaining fire salvage to be harvested in these TVAs ranged between 50 and 60 MMBF with an estimated time table for completion of July 2014. Peter Murphy conceded that a first quarter modified could be justified using the fourth quarter 2013 modified sales data, but projecting that same schedule into second quarter 2014 using older data

was not appropriate. Instead he recommended that a possible 2Q14 modified schedule be revisited at the Spring TAC meeting when an updated logging schedule and possible new sale information is available. With all of this information under consideration, Len Lindstrand made a motion to continue the 4Q13 Modified Schedule through 1Q14, with the possibility of a modified schedule for 2Q14 be revisited at the Spring TAC meeting. The motion was seconded by Chuck Leonhardt, which passed with all in favor.

b) TVA 8 Rim Fire

Peter Murphy began the discussion on the Rim Fire with a handout that contained some background information. The Rim Fire ignited on August 17th and was declared fully contained on October 24, 2013. It is the third largest wildfire in California history and the largest ever in the Sierra Nevada Mountain Range. It burned over 257,000 acres in total, with the vast majority on U.S. Forest Service and Yosemite National Park land (about 91% of total acreage). Burned timber in the national park will likely never be commercially harvested. The estimated volume lost on the Forest Service is somewhere around 880 million board feet. It is estimated that some 16,000 acres burned on large industrial timberlands (6.2%) with an estimated volume loss of 100 MMBF. Estimates for small private timberlands that burned are around 4,000 acres (1.6%) and about 20 MMBF.

The unprecedented dilemma posed by the Rim Fire was not only the short amount of elapsed time since the fire was contained with respect to the timing of value sessions and recommendations to TAC, but also never before has there been such a large scale catastrophic event having such a limited number of open market sales on which to base a modified value schedule. One month ago staff was unsure if there would be enough sale information available to propose a modified value schedule. Forest Service environmental review is lengthy and time consuming with sales of federal timber not likely until sometime in 2014 at the earliest. With only two arms-length transactions from small private ownerships at the time staff met on October 14th, it was decided that there was not enough sale information to justify a modified value schedule at that time. Based on appraiser's judgment, staff concluded that the regular Table S salvage values contained a larger sales base which included sales of Rim, other fire, and other salvage, that yielded lower salvage values appropriate for 1Q14. As more open market sale information becomes available, it was staff's intention that 2Q14 and beyond would be handled with modified schedules when there is sufficient sale data to support them.

However, on October 24th 2013, Sierra Pacific Industries (SPI) requested a modified schedule for first quarter 2014, as well as for fourth quarter 2013. Since that time, a few more open market sales have become available, with only a few more private sales anticipated in 2014. With the additional sales information in hand, Timber Tax Staff prepared 4Q13 and 1Q14 TVA 8 Modified Value Schedules for the committee to consider. Mark Bosetti spoke on behalf of Sierra Pacific Industries, which is the large industrial timberland owner impacted by the Rim Fire. Mr. Bosetti stated that due to the hardships created by the Rim Fire he wished to request tax relief not only for SPI, but for all small private timberland owners as well. He said that anything that could be done, especially for 4Q13, would be greatly appreciated. He recognized the unusual circumstances regarding the Rim Fire and the appraisal challenge with the limited number of open market transactions. He thanked

Timber Tax Staff for working so diligently in such a limited amount of time to comply with SPI's request for a modified schedule for the current quarter as well as for first quarter 2014. He felt that some of the values were a little high, but acknowledged that they do reflect bright log prices in the first or early phases of large scale salvage harvesting. Mr. Bosetti stated that the level of staining in pine and wood degradation is generally benign in the first six months, but accelerates quickly after that. Both Mr. Bosetti and Len Lindstrand wanted to know if there were mechanisms in place that allows staff and the TAC Committee to review and update modified values as time goes on. Both David Gau and Peter Murphy assured them that the system has that flexibility and that the values would be reviewed on an ongoing basis as more sale information becomes available. Peter said that stronger consideration will be given to the more recent sales as value loss from bluing in pine increases and as oversupply of salvage timber softens the market, further acting to lower prices even on green timber. The marketing effects of the Rim Fire are likely to affect timber values for years to come, and as time wears on, older higher value sales will be dropped from consideration.

For the record Mr. Bosetti wanted it known that he felt the Size Quality 3 Douglas-fir in the 4Q13 suggested modified schedule (MDF 3) was too high at \$160/MBF. He felt that based on \$400/MBF pond value Douglas-fir it should be valued at \$150/MBF, which is the suggested value for 1Q14. Peter Murphy and Mike Doyich explained that the current sales data strongly supported \$160/MBF in both quarters, but regular salvage in 1Q14 was \$150/MBF so the modified value could not be higher than that. It would have to be the same or lower. Reference was made to the color modified comparison chart for TVA 8 that was handed out which showed regular DFS 3 was \$180 and \$150 per MBF for 4Q13 and 1Q14, respectfully. After all concerns about a modified for TVA 8 were addressed, Len Lindstrand made a motion to accept both 4Q13 and 1Q14 as originally submitted. The motion was seconded by Mike Mallory and passed with all in favor.

4. New Business

a) Low Volume Per Acre Deduction

Len Lindstrand asked when the *Low Volume Per Acre Deduction* was last reviewed, and that the deduction amount has not changed for quite some time, if ever. He had two questions for staff to discuss and consider: First, is the harvest volume threshold of 5 MBF per acre still appropriate and second, is the cost differential of \$25 per MBF for the deduction still valid? Peter Murphy said that up until the economic downturn in 2007-2008 (when sale data was plentiful), staff routinely reviewed all deductions on an annual basis. But, it was around 2006 when that deduction was seriously reviewed in detail. At that time, there was a significant amount of data that strongly confirmed the correlation for both parameters. Len said his reasoning for requesting staff to reexamine the components of the deduction is significantly higher fuel costs as it relates to mobilization costs and the new truck diesel rules that have recently been enacted. He questioned if these higher costs were equal across the board or, whether it has more effect on smaller, low volume operations. Peter explained the deduction is an actual comparison of the operating cost between high and low volume per acre operations. Factors such as inflation should not have an effect on this differential; there must be some other external factor that influences either high or low

volume per acre operations for this deduction to change. David Gau and Peter Murphy both agreed it would be appropriate to review this deduction to determine whether or not the parameters are still valid or if they need to be updated. Staff will conduct an analysis and report back to the committee at the next TAC Meeting.

b) Tentative date for the next meeting

The tentative date for the next meeting was agreed to be Thursday afternoon May 1, 2014 at 1:30 pm at the same location and room, pending confirmation from the other committee members not in attendance at today's meeting.

7. Adjourn

Hearing no objections, David Gau adjourned the meeting at 2:55 pm.